

# **Summary of the Economic Report**

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This economic report addresses, through its six parts, the most significant economic, financial, monetary and banking developments and events witnessed in the domestic economy during year 2004, and analyses their most salient reflections on the various aspects of the Kuwaiti economy, particularly those connected to the trends of economic growth, domestic prices, population and labor force, along with CBK's efforts in drawing and implementing the monetary policy, the measures and programs of supervision and oversight of the banking and financial sector, the effects thereof on the principal monetary variables and aggregates, and the development of the financial indicators expressing the performance of the banking and financial system units and their current financial positions and structures with regard to sources and uses of funds. The report also monitors and analyzes the developments in public finance within the general budget of ministries and governmental departments, foreign trade and balance of payments statistics and the activity in the Kuwait Stock Exchange. As has been the case in previous years, CBK was keen on basing this analysis of the developments in the economic, financial monetary and banking conditions of the State of Kuwait during year 2004, on latest available data and statistics, so as to present a comprehensive and objective view of the effect of these developments on the developments in the general performance of the Kuwaiti economy and the positions of its internal and external financial balances.

The most important developments and events in the economic report issued by the Central Bank of Kuwait for year 2004 can be summarized as follows:

### **First- Performance of the Domestic Economy:**

The first part of the economic report addressed the main trends in the performance of the Kuwaiti economy during year 2004, in regard to economic growth, domestic prices, and

population and labor force. The most important aspects presented by this part of the report can be summarized as follows:

### **1- Economic Growth:**

- The State of Kuwait GDP at current prices witnessed an accelerated growth during 2004, thereby reaching KD 16420.3 million, against KD 13768.1 million in 2003, i.e. a growth of KD 2652.2 million (19.3%), compared to a growth of 18.8% during the previous year.
- This growth in the State of Kuwait GDP at current prices during 2004 essentially reflects the favorable developments witnessed in world oil markets, and the accompanying rise in world oil prices on the one hand, along with the increase in Kuwait's crude oil production rates on the other. This reflected on the total value added at current prices in the oil sectors (crude oil and natural gas production and the refined petroleum products industry) which witnessed an accelerated growth, thus reaching KD 8613.3 million during 2004, compared with KD 6367.4 million in the previous year, i.e. a growth of KD 2245.9 million or 35.3% compared with a growth of 31.6% during the previous year. In return for the increase in the total value added at current prices in the oil sectors, its ratio in the composition of the State of Kuwait GDP at current prices increased from 46.8% during 2003 to 52.8% during 2004.
- The total value added at current prices in the non-oil sectors (excluding the refined petroleum products industry) witnessed a deceleration in growth, thereby reaching KD 7686.2 million during 2004, from KD 7265.6 million during 2003, i.e. an increase of KD 420.6 million or 5.8%, following its growth by KD 9.3% in the previous year. Along with the relative deceleration in the growth rate of the total value added at current prices in the non-oil sector, its ratio in the composition of the State of Kuwait GDP at current prices declined from 52.8% during 2003 to 46.8% during 2004.

- The value added at current prices in all non-oil sectors during year 2004, achieved a positive growth, though at rates which were often below their corresponding rates of 2003. Worth mentioning within this context is that the Community, Social and Personal Services activity contributed the highest portion (35%) of the growth in the total value added to GDP by the non-oil sectors during 2004, whereby that activity grew by KD 147 million or 5.4%, compared with a growth of 7.7% during 2003. The Financial Institutions activity came second to the Community, Social and Personal Services activity with regard to its relative contribution (33.6%) to the growth in the total value added in the non-oil sectors, as it grew by KD 141.4 million (15.3%) during 2004, compared to a growth of 21.5% during the previous year. The Wholesale and Retail Trade, Hotels & Restaurants activity witnessed a growth of 8.4% during 2004, compared with a growth of 12.1% during the previous year. Furthermore, an acceleration was witnessed in the growth of the value added in both the Construction activity (from 6.7% to 8.4%) and Real-estate activity (from 2.2% to 5.2%) between 2003 and 2004, respectively.
- As for the sources of the rise in GDP at current prices, from the perspective of expenditures on GDP, the major portion (92.5%) of that rise resulted from the increase in expenditure of the outside world on the GDP (exports of goods and services) by KD 2453 million or 33% to KD 9885 million during 2004, from KD 7432 during the previous year. Furthermore, the total expenditure by residents, which represents the sum of the final government and private consumption expenditure, and expenditure on gross capital formation, rose by KD 737.2 million or 6.6% to KD 11990.3 million during 2004, from KD 11253.1 million during the previous year.
- The Gross National Product (GNP) at current prices rose during 2004 by 24% to KD 18306.3 million, from KD 14768.1 million during the previous year. The National Income at current prices rose by 24.6%, from KD 13699.6 million during 2003 to KD 17068.4 million during 2004. Accordingly, the average per-capita share of the GNP at current prices rose from KD 5514.4 during 2003 to KD 6453.6

in 2004, i.e. an increase of KD 939.2 (17%). This rise occurred despite the acceleration in population growth from 5.1% in mid-2003 to 6.5% in mid-2004.

## **2- Domestic Prices:**

- The inflation rate, measured as the relative change in the General Consumer Price Index (year 2000=100), was stable at less than 2 percentage points during 2004, as it reached 1.3% during that year, compared to 1% during the previous year.
- The rate of inflation, measured by the relative change in the General Wholesale Price Index (1980=100), decelerated from 1.9% during 2003 to 0.4% during 2004. This deceleration is attributable to the decline in the rate of increase of the general level of wholesale prices of imported goods, from 2.6% during 2003 to 0.3% during 2004. As for the general level of wholesale prices of domestically produced goods, it recorded a rise of 0.4% during 2004, following a decline of 0.3% during the previous year.

## **3- Population and Labor Force:**

- The total population of the State of Kuwait increased at an accelerated rate from 2.547 million at end of 2003 to 2.754 million at end of 2004, i.e. a growth of 8.1% compared with a growth of 5.2% during the previous year. The largest portion (86.2%) of that growth in total population is attributable to the rise in non-Kuwaiti population by 11% during 2004 compared to a rise of 6.4% in the previous year. Furthermore, the Kuwaiti population rose by 3.1% during 2004, following a rise of 3.2% during the previous year.
- The mentioned rise in the total population of the State of Kuwait essentially reflects the marked growth in the number of economically active individuals, i.e. those aged between 15 and less than 60 years, by 9.5% at end of 2004 compared to their number at end of the previous year. Accordingly, the ratio of economically active

individuals to the total population increased to 74.8% from 73.8% at end of the two mentioned years respectively. This rise encompassed both the Kuwaiti population (from 54.6% to 55%) and non-Kuwaiti population (from 84.8% to 85.3%) between 2003 and 2004.

- The number of individuals under 15 years of age grew at an accelerated rate, from a growth rate of 1.5% during 2003, to a growth rate of 3.6% during 2004. This acceleration encompassed both the Kuwaiti and non-Kuwaiti populations aged less than 15 years. The report also indicated the rise in relative weight of individuals less than 15 years of age in the Kuwaiti population to 40.5%, and the continued increase in the number of individuals in that group (by 1.9% during 2004).
- The growth rate of the total labor force in the State of Kuwait accelerated from 7.5% during 2003 to 11.5% during 2004. This rise in 2004 encompassed both the Kuwaiti labor force (by 7.1%) and non-Kuwaiti labor force (by 12.5%). Consequently, the relative importance of the national labor force in the total labor force declined (from 19.1% to 18.3%), along with the rise in the relative importance of the expatriate labor force (from 80.9% to 81.7%) between the end of 2003 and 2004, respectively.
- Labor force rose by 13% in the private sector and by 4% in the governmental sector at end of 2004 compared to end of the previous year. The largest portion (93.1%) of the growth in the private sector labor force during 2004 was essentially due to the rise in expatriate labor force in that sector. On the other hand, the largest portion (82.9%) of the growth in the governmental sector labor force during 2004 was essentially due to the rise in national labor force in that sector.

## **Second- Monetary Developments and Activity of CBK:**

The second part of the report focused on reviewing CBK's activity in drawing and implementing the monetary policy of the State of Kuwait, and analyzing the role played

by that policy in influencing the trend of the main monetary indicators and aggregates, in accordance with the firm establishment of the bases of monetary stability in the country and the enhancement of the opportunities and elements of self-generated growth in the national economy, within the framework of the State general economic policy. The report also followed up the developments concerning CBK's activity in the supervision and oversight of the banking and financial system units, and its role in directing and rationalizing the credit policy of banks and investment companies subject to its supervision, within its efforts aimed at generating an atmosphere that contributes to further strengthening these units and ensuring the soundness of their financial positions, in line with the prudent banking and financial practices.

The main aspects presented in this report on CBK's efforts within the monetary policy aimed at firmly establishing the atmosphere of monetary stability, enhancing the opportunities and elements of self-generated growth in the country, and developing the main monetary indicators and aggregates during 2004, can be summarized in the following:

- 1- The report pointed to the acceleration in the growth rate of Money Supply in its broad definition (M2) by KD 1254 million or 12.1% to KD 11655.2 million at end of 2004, from KD 10401.2 million at end of 2003 during which it grew by 7.8%. This growth in Money Supply in its broad definition (M2) was the sum of the increase in both Money (the narrow definition of Money Supply, M1) by KD 562.7 million or 21.5%, and Quasi-Money by KD 691.3 million or 8.9%. The factors affecting changes in Money Supply (M2), reflected the sum of the rise in net foreign assets of these institutions (essentially local banks) by KD 1068.1 million or 43.3% (from KD 2466.7 million to KD 3534.8 million) and their net domestic assets (essentially claims on the private sector) by KD 185.9 million or 2.3% (from KD 7934.5 million to KD 8120.4 million).
- 2- The balances of the utilized portion of cash credit facilities extended by local banks to the various domestic economic sectors, rose to KD 9867 million at end of year

2004, from KD 8419.43 million at end of year 2003, i.e. a rise of KD 1447.6 million or 17.2%, compared to a rise of KD 1565.9 million or 22.8% during the previous year. The largest portion (65.1%) of that increase was concentrated in the first half of 2004. This rise was the outcome of the increase of extended credit facilities in some sectors and their decline in others, whereby this rise was concentrated in the Personal Facilities sector (by KD 713.5 million, or 20.7%), the Real-Estate sector (by KD 585.1 million, or 40.8%), the Trade Sector (by KD 218.3 million, or 20.4%), the Non-Bank Financial Institutions sector (by KD 130.8 million, or 20.1%). The decline was concentrated in the balances of these facilities extended to the economic sectors recorded under the 'Others' item (by KD 123.1 million, or 19.8%) and the Construction sector (by KD 41.1 million, or 6.5%).

- 3- CBK issued during 2004, five decisions regarding raising the rate of discount and rediscount of commercial papers presented to CBK by local banks, and which it accepts to discount or rediscount. According to these decisions, the discount rate was increased by a total of 1.5 percentage point (from 3.25% to 4.75%). These decisions were aimed at maintaining the competitiveness of the national currency as a store of domestic savings in light of the uptrend in interest rates on major currencies in general, ahead of which the US dollar. In light of the above mentioned increases of CBK's discount rate during 2004, the average interest rates on the KD-denominated customers' time deposits with local banks witnessed some rise in the second half of 2004, after reaching record lows at end of the first half of that year. This coincided with a marked rise, and by larger extent, in the averages of local banks' interest rates on the US dollar deposits. These developments resulted in the narrowing of the margins between the averages of local banks' interest rates on customer KD deposits and US dollar deposits.
- 4- The follow-up of developments in the exchange rate of the Kuwaiti dinar against the major currencies indicates that the exchange rate of the Kuwaiti dinar maintained its relative stability against these currencies during 2004, under the



exchange rate policy of pegging the Kuwaiti dinar to the exchange rate of the US dollar within specific margins, noting that CBK started applying that policy as of the beginning of 2003, according to the Decree No. 266 of year 2002, issued on 15 October 2002, concerning the KD exchange rate policy.

Within this context, the report indicated that the Kuwaiti dinar was stable against the US dollar at 294.70 fils during 2004, which is below the parity rate by 4.93 fils or 1.6%. The exchange rate of the US dollar against the other major currencies followed in general a downtrend during 2004, despite displaying upward and downward fluctuations. The exchange rate of the US dollar fluctuated markedly, and within relatively broader margins, against the other major currencies during 2004, whereby the difference between the highest and lowest exchange rates of the US dollar against these currencies reached 16.8% against the Swiss franc, 15.5% against the Euro, 12% against the Japanese yen, and 10.6% against the Sterling pound.

- 5- The circulars, instructions, and regulations issued by CBK during year 2004 to the units subject to its oversight, reflect CBK's continued efforts in enhancing the soundness of the financial positions of the banking and financial sector units registered with it, within the context of its role in the supervision and oversight of these units. These efforts encompassed off-site monitoring and on-site inspection, along with the issuance of instructions aimed at shoring up the bases of stability in the local banking and financial sector, and firmly establishing professionally sound practices in this sector's units. Within this context, the report indicated that the CBK issued in 2004 new instructions, and introduced modifications to previously issued instructions regarding the activities of the local banking and financial sector's units subject to its supervision, in line with the developments on the domestic and world scenes. Among the most significant of these instructions are those concerning the limits of credit facilities extended by local banks and investment companies to financial institutions, the principles of good governance in

financial institutions, the submission of periodic data to CBK, the rules and regulations for the extension of consumer loans and other installment loan, the Liquidity System according to the Maturity Ladder Approach, and the use of credit cards.

- 6- The developments in the balances of public debt instruments during year 2004 indicate the continuation of CBK's efforts which started since November 1987 in the management of public debt instruments (Treasury Bills and Treasury Bonds) on behalf of the Ministry of Finance. The CBK uses these instruments in regulating the levels of domestic liquidity through the open-market operations of both the primary market for issuing Treasury Bills and Bonds, and the secondary market for trading (buying and selling) these instruments. In this regard, the report indicated that during 2004, the CBK offered thirty issues of Treasury Bills with a total nominal value of KD 2515.2 million, and fourteen issues of these bonds of one-year maturity with a total nominal value of KD 1339 million. During that year, thirty-one previous issues of Treasury Bills with a total nominal value of KD 2617.7 million, and thirteen previous Treasury Bonds issues with a total nominal value of KD 1270 million reached maturity. In light of these developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) declined by KD 33.5 million or 1.4% to KD 2427 million at end of year 2004, compared to KD 2460.5 million at end of 2003.

### **Third- Financial Indicators of the Banking and Financial Sector:**

The third part of the report addressed the developments in the local banking and financial system during 2004 through the data and indicators derived from the aggregate balance sheets of the groups of units within this system. The main developments highlighted in this part of the report, can be highlighted as follows:

- 1- **The institutional structure of the banking and financial system** witnessed an

expansion during 2004. Following the issuance of Law No. 30 of year 2004, concerning the addition of a special section on Islamic banks to the Third Article of Law No. 32 of year 1968 concerning Banks, the Central Bank of Kuwait and the Organization of Banking Business, the Kuwait Finance House was registered in CBK's register of Islamic banks, and, a new Islamic bank (Bubyan Bank) was established. Additionally, CBK granted preliminary approval for the conversion of a specialized local bank (Kuwait Real-Estate Bank) into an Islamic bank.

Furthermore, during 2004, the Law No. 28 of year 2004 was issued to amend certain provisions of Law No. 32 of year 1968 concerning Banks, the Central Bank of Kuwait and the Organization of Banking Business, to allow the opening of foreign banks' branches in to the State of Kuwait. During that year, CBK's Board of Directors endorsed the principles, regulations and controls regarding the licensing and operation of foreign banks' branches in the domestic market. Also, during 2004, a license was issued to the French bank 'BNP Paribas' to open a branch in the State of Kuwait.

The number of investment companies registered with CBK and subject to its supervision rose to 42 companies (of which 14 companies operating according to the provisions of Islamic Sharia's) at end of 2004, due to the addition of two new companies (operating according to the provisions of Islamic Sharia's), against 40 companies at end of 2003 (of which 12 investment companies operating in accordance with the provisions of Islamic Sharia). Also, the number of exchange companies subject to CBK's supervision increased from 32 companies at end of 2003 to 35 companies at end of 2004. The number of investment funds registered with CBK and subject to its supervision rose markedly in 2004, for the third consecutive year, by the addition of 11 new investment funds, thus bringing their number to 60 funds at end of year 2004 from 48 funds at end of the previous year.

- 2- During 2004, local banks continued to develop their sources and usages of funds, along with strengthening the structural bases of their financial positions, through

attracting and using funds at the domestic and foreign levels, and availing of the financing opportunities made available by the improvement of the regional security conditions, and the accompanying growth in the country's population and construction activity, along with availing of the investment opportunities offered by the improvement of rates of return on investments in world markets. The **total aggregate balance sheet of local banks** continued its growth during 2004, reaching a new record level of KD 19144.2 million at year end, i.e. a growth of KD 330.3 million (or 1.8%) above its level (KD 18813.9 million) at end of 2003. That growth resulted from the confluence of several factors, chief among which was the marked growth in the balances of private sector's deposits with local banks, in addition to government deposits and shareholders' equity on the liabilities side. In return, an increase was recorded in the domestic assets of local banks, particularly in their claims on the private sector and their foreign assets.

- 3- The analysis of financial flows indicate that local banks, in order to make available financial resources for their operations in year 2004, resorted to reducing their domestic assets (deposits with local banks, claims on the government, and time deposits with CBK), to a larger extent than raising their domestic liabilities (private sector deposits, government deposits, and shareholders' equity), as was the case in the previous year. Regarding the use of domestic financial resources made available to them during 2004, local banks increased their domestic assets (particularly claims on the private sector, in the form of credit facilities extended to residents, domestic financial and non-financial investments), and reducing some elements of domestic liabilities (specifically, local banks deposits), and reduced some elements of domestic liabilities (specifically deposits with local banks). In general, local banks' operations during 2004 were characterized by realizing domestic financial resources in excess of their domestic uses during the mentioned year on the one hand, and surpassing the domestic financial resources realized during the previous year, on the other.
- 4- Regarding the results and conclusions derived from the developments in the items of

local banks' aggregate balance sheets, the report indicates that the marked expansion (by 16.1%) in the funding extended by local banks to the private sector, resulted essentially from the rise in total demand, following the enhanced confidence in the Kuwaiti economy, in light of the rise in oil prices, and the growth in the domestic economic activity, driven by the rise in public expenditure and the decline in domestic interest rates on the one hand, and the improvement of the security situation in the region on the other. Worth noting in this regard are the developments in CBK's monetary policy during 2004 (of which the consecutive raises in the discount rate during the second half of 2004, and the rationalization of the credit policies of local banks), and the role of these developments in curbing the accelerated growth of bank credit.

The local interbank money-market operations decreased noticeably, as the balances of interbank deposits of these banks declined by KD 1509.5 million (or 51.8%) on the assets side, and by KD 1192.6 million (or 46.6%) on the liabilities side at end of 2004. This decline was essentially due to certain CBK's instructions regarding netting the balances of Certificates of Deposit sold to local banks from the balances of certificates of deposit purchased from these banks, and netting the amounts extended as loans to banks against the amounts borrowed from them, when calculating the maximum allowed limit of consumer loans and other installment loans.

The report highlights that the private sector deposits represent the first and most important source of funds to local banks. The balances of these deposits realized, during 2004, a growth rate of 12.3%, after a rise by 7.6% in the previous year. This rise in the balances of private sector deposits is attributable to several factors, particularly the rise in total domestic demand, as a result of the growth of public expenditures and CBK's efforts to promote the attractiveness of the national currency.

The net foreign assets of local banks recorded a substantial rise at end of year 2004,

for the second consecutive year, to KD 1369.8 million, i.e. by KD 869.3 million (or 173.7 %), above its level of KD 500.5 million at end of 2003. This rise resulted essentially from the rise in foreign assets, particularly deposits with foreign banks.

- 5- Local banks achieved record profit levels in year 2004, surpassing those realized during the previous years. In this regard, net profits realized from local banks' activities reached KD 475.2 million during year 2004, compared to KD 372.7 million and KD 307.6 million during 2003 and 2002 respectively. Available aggregate data on local banks show that the capital adequacy ratio for each of these banks remains discernibly higher than the minimum required limit according to international recommendations. The average Capital Adequacy Standard for all local banks subject to CBK's supervision reached 17.3% at end of year 2004.
  
- 6- **Local investment companies** (whether conventional or operating according to the provisions of Islamic Sharia) subject to CBK's supervision continued in year 2004 to increase their operations and expand their activities, regarding their sources and uses of funds. Available data indicate that the total assets of local investment companies (42 companies, of which 28 conventional investment companies and 14 investment companies operating according to the provisions of Islamic Sharia) reached KD 6359.7 million at end of 2004, against KD 5527.2 million at end of year 2003 (40 companies).

Worth noting is that local investment companies manage off-balance sheet funds within their contra accounts, mostly as third party investments, which exceed the total aggregate balance sheet of these companies. These funds totaled KD 8.5 billion at end of 2004, compared with KD 7.1 billion at end of 2003, i.e. a growth of KD 1.4 billion or 19.7%. Consequently, it could be said that local investment companies manage funds in the form of assets and contra accounts totaling KD 14.8 billion at end of 2004, which indicates the increased significance and the diversification of the investment activity of domestic investment companies in the national economy.

- 7- Available comparative financial data on **conventional investment companies** (26 companies) indicate that their total aggregate balance sheet reached KD 4820.4 million at the end of year 2004, thus recording a growth of KD 628.7 million (or 15%) above its level of KD 4191.7 million at end of the previous year, for the same companies.
- 8- Available comparative financial data on the aggregate balance sheet of **investment companies operating in accordance with the provisions of the Islamic Sharia** (11 companies) indicate a tangible growth of KD 139.9 million (11.8%) in that total balance sheet to KD 1323.8 million at end of year 2004, compared to KD 1183.9 million for the same companies at end of the previous year.
- 9- Available comparative financial data also indicate that the **total balances of contra accounts of local investment companies** (26 conventional investment companies, and 11 companies operating in accordance with the provisions of Islamic Sharia), reached KD 8137 million at end of year 2004, thereby recording a noticeable rise of KD 1327.8 million (19.5%) above their end of year 2003 level of KD 6809.1 million.
- 10- The role of **locally established investment funds** registered with CBK gained prominence in the domestic market, and their number rose at an accelerated pace to 60 funds, of which 20 funds operating in accordance with the provisions of Islamic Sharia at end of 2004, compared with 48 funds at end of 2003. These funds vary in regard to their objectives and areas of activity.

The total assets of investment funds for which data were available for 2004 (49 investment funds) reached KD 2341.8 million at end of year 2004, against KD 1685.6 million at end of year 2003 for 40 investment funds. At end of year 2004, the paid-up capitals of these funds (49 investment funds) totaled KD 1374.7 million, while their total owners' equity amounted to KD 1886.5 million, compared to KD 1185.8 million and KD 1647.1 million respectively at end of 2003 (for 40 investment funds). The investments of these funds are essentially concentrated in the Kuwait Stock Exchange and the domestic real-estate sector.

During year 2004, investment funds (49 investment funds) realized net profits amounting to KD 194.1 million from their operations, against KD 379.6 million (for 40 investment funds) in the previous year. Cash distributions to share (unit) holders reached KD 102.5 million in year 2004, against KD 104.4 million in the previous year.

It is noted that the profitability ratio of investment funds recorded in 2004 a decline for the first time since year 2000, as the ratio of net profit to total assets declined to 8.3% at end of 2004 against 22.5% at end of the previous year. Worth noting is that the above mentioned investment funds, most of which concentrate their operations in the domestic financial and real-estate markets, became a main player in these markets where their total investments exceeded KD 2.3 billion at end of 2004. Also, these investment funds added a new depth and an institutional dimension to trading and investing operations in these markets.

11- Certain units of the local banking and financial system, such as local banks and investment companies, **are marketing a number of foreign investment funds in the local market**. These funds, whose activity is concentrated essentially in foreign financial and real-estate markets, constitute a channel for directing the flows of residents' investment capitals to external investments through the local agents of these funds. At end of year 2004, there were 72 locally-marketed foreign investment funds against 68 funds at end of the previous year. Resident investors' subscriptions to these investment funds reached KD 939.3 million at end of 2004, from KD 654.9 million at end of the previous year (i.e. an increase of KD 284.4 million or 43.4%).

12- Available comparative data on 30 **local exchange companies** of the total number of companies registered with CBK and subject to its supervision, (35 companies as at end of 2004) indicate that their aggregate balance sheet grew by KD 8.7 million or 14.8% to KD 67.3 million at end of year 2004, compared to KD 58.7 million at end of the previous year (for the same thirty companies).



Profitability ratios in local exchange companies improved during 2004, as the ratio of net profit to partners' equity increased from 13.8% for year 2003 to 17.5% for year 2004. The return on paid-up capital rose from 16.8% to 21.1%. Also, the return on total assets increased from 7.9% to 8.6%, due essentially to the increase in profitability (by 26% or KD 1.2 million) by a rate higher than the rate of increase in the value of total assets (14.8% or KD 8.7 million) .

#### **Fourth- Developments in Public Finance:**

In its fourth part, the economic report focused on following up the developments in public finance in the State of Kuwait during 2004, through three main sections. The first addressed the key aspects of public finance developments during 2004, based on the monthly follow-up statements of the government fiscal operations within the general budget of ministries and governmental bodies for that year. The second presented the most significant developments in the closing account for the fiscal year 2003/04, and the third reviewed the revenue estimates and allocations for expenditures in the general budget for the fiscal year 2004/05, and the portion executed thereof during the period 1/4/2003 – 31/12/2003 (as reported in the monthly follow-up statements). The contents of that part of the report can be summarized as follows:

- 1-** The marked rise in both the world oil prices and the State of Kuwait oil production rates during 2004, had a noticeable effect on the growth of total actual budgetary revenues collected during that year, which reached levels unattained since the surge in oil price in the mid-seventies of the previous century, thereby rising by 23.5% to KD 8402.1 million, compared with KD 6800.6 million during the previous year. Along with the rise in actual budgetary revenues, their ratio to the GDP rose to 51.2% during 2004, from 49.4% during the previous year. This was accompanied with a rise by a relatively lower rate in the actual budgetary expenditures to KD 4860.1 million during 2004, from KD 4278.9 million during the previous year, i.e. a rise of KD

581.2 million or 13.6%. Consequently, according to the monthly follow-up statements, the State general budget realized, before deducting the allocations for the Reserve Fund for Future Generations, a surplus of KD 3542 million (21.6% of GDP) during 2004, compared to a surplus of KD 2521.7 million (18.3% of GDP) during the previous year, i.e. a rise of KD 1020.3 million or 40.5%.

- 2- According to **the closing accounts' data of the fiscal year 2003/04**, the actual budgetary revenues collected during the fiscal year 2003/04 rose to KD 6937.3 million compared with KD 6219 million during the previous fiscal year, i.e. a rise of KD 718.3 million or 11.5%. The largest portion (90.7%) of that mentioned rise was the increase in actual budgetary oil revenues by KD 651.5 million or 11.8%, from KD 5498.5 million during the fiscal year 2002/03 to KD 6149.9 million during the fiscal year 2003/04. This increase reflects the favorable developments in world oil markets, and the accompanying rise in both the average actual price of a barrel of Kuwaiti export crude oil, and the State of Kuwait crude oil production rate during the fiscal year 2003/04, compared with the previous fiscal year. Additionally, the actual budgetary non-oil revenues within the closing account of the fiscal year 2003/04 increased by KD 66.8 million (or 9.3%) to KD 787.3 million, compared to KD 720.5 million for the previous fiscal year. This rise was essentially concentrated in the increase in revenues resulting from the collection of taxes and fees on international trade and transactions (fifth chapter) and service revenues (sixth chapter), by 45.8% and 11.3% respectively, during the fiscal year 2003/04, compared to the previous fiscal year.
- 3- Within the closing account of the fiscal year 2003/04, the actual budgetary expenditures increased to KD 5522.8 million, against KD 4927.4 million in the previous fiscal year, i.e. a rise of KD 595.4 million or 12.1%. This rise encompassed all chapters of public expenditures, though unevenly. The largest portion (48.5%) of the mentioned growth in the actual budgetary expenditures within the closing account of the fiscal year 2003/04, is attributable to the increase in actual budgetary expenditures under the fifth chapter (miscellaneous expenditures and transfer payments) by 12.5% to KD 2607.5 million,

compared with KD 2318.7 million during the previous fiscal year 2002/03 .

- 4- In light of the above mentioned developments in actual revenues and expenditures, the closing account for the fiscal year 2003/04 realized a surplus of KD 1414.4 million, before deducting the allocations for the Reserve Fund for Future Generations, against an actual surplus of KD 1291.6 million for the previous fiscal year, i.e. an increase of KD 122.8 million or 9.5%.
  
- 5- The report also reviewed, within this part, the general aspects of **revenue estimates and allocations for expenditures in the general budget for the fiscal year 2004/05** enacted by the Law No. (68) of year 2004, and followed up the portion executed thereof during the period (April-December 2004). Within this context, the report indicated the following:
  - The budgetary revenue estimates for the fiscal year 2004/05 reached KD 3319.7 million, indicating a decline of KD 235.2 million (6.6%) below their estimates for the fiscal year 2003/04. This decline is essentially attributable to the decrease in the oil revenues estimates (by KD 235.2 million to KD 2735.3 million). The budgetary non-oil revenue estimates for the fiscal year 2004/05 almost equaled their approved estimates for the fiscal year 2003/04.
  
  - The allocations for budgetary expenditures for the fiscal year 2004/05 increased by KD 555 million or 9.3% to KD 6505.4 million, compared to KD 5950.4 million for the allocations for budgetary expenditures for the previous fiscal year 2003/04. The largest portion (76.2%) of that increase reflected the rise in the approved estimates of current budgetary expenditures.
  
  - According to the monthly follow-up statements of actual budgetary revenues and expenditures during the first nine months of the fiscal year 2004/05 (April-December 2004), the actual budgetary revenues collected during that period rose to KD 6595.2

million, i.e. an increase of KD 1476.6 million or 28.8% above the actual budgetary revenues of KD 5118.6 million collected during the corresponding period of the previous fiscal year (April-December 2003). This increase essentially reflects the rise in world oil prices and the increase in the actually produced quantities of oil, and the resulting rise in actual budgetary oil revenues collected during the first nine months of the fiscal year (2004/05) to KD 6065.2 million, against KD 4532.9 million during the corresponding period of the previous fiscal year (April-December 2003), representing an increase of KD 1532.3 million or 33.8%. Conversely, the actual budgetary non-oil revenues collected during the first nine months of the previous year 2004/05 declined by KD 55.6 million or 9.5%, compared to the corresponding period of the previous fiscal year.

- The total actual budgetary expenditures during the first nine months of the fiscal year 2004/05 (April-December 2004) reached KD 3268.7 million, higher by KD 162.4 million (5.2%) than the actual budgetary expenditures during the corresponding period (April-December 2003) of the previous fiscal year. This rise was essentially concentrated in the actual budgetary expenditures under both the second chapter (requirements of goods and services) and fourth chapter (construction projects and public acquisitions) which rose collectively by KD 199.4 million (49.5%) during the first nine months of the fiscal year 2004/05, compared to the corresponding period of the previous fiscal year.
- As an outcome of the above developments during the first nine months of the fiscal year 2004/05 (April-December 2004), the general budget realized during that period an actual surplus of KD 3326.5 million, compared with an actual surplus of KD 2012.2 million during the period (April-December 2003), before deducting the allocations for the Reserve Fund for Future Generations, i.e. an increase of KD 1314.2 million or 65.3%.

#### **Fifth- Developments in Foreign Trade and Balance of Payments:**

The fifth part of the report focused on following up and analyzing the main developments witnessed in the economic and financial relations between the residents in the domestic economy and residents in other economies, as reflected by the available data and estimates on the Foreign Trade and Balance of Payments (BOP) statistics for year 2004. The most significant aspects covered by the report in this regard can be summarized as follows:

- 1- Data on the Balance on Goods, expressing the activity in merchandise exchange between the domestic economy and other economies, highlight the positive reflections of the favorable developments in world oil prices during 2004 on that balance, which rose to KD 5688 million compared to KD 3350 million during the previous year, i.e. a rise of KD 2138 million or 60.2%. Along with the rise in the Balance on Goods surplus, its ratio to the GDP at current prices rose from 25.8% during 2003 to 34.6% during 2004. The main source of that rise was the noticeable growth of the total value of the State of Kuwait's merchandise exports and re-exports on 'fob' basis, by KD 2411 million or 37.1% to KD 8906 million during 2004, from KD 6495 million during the previous year. This increase encompassed the increase in both oil the exports by KD 2350 million or 40.3% (from KD 5832 million to KD 8182 million) on the one hand, and non-oil exports by KD 61 million or 9.2% (from KD 663 million to KD 724 million) on the other. The total value of Kuwait's merchandise imports (fob) rose by KD 273 million (9.3%) to KD 3218 million during 2004 from KD 2945 million during the previous year.
- 2- The deficit realized in the Services Account (Net) in the BOP statistics, which reflects the outcome of transactions between residents and non-residents of the domestic economy with regard to transportation, insurance, travel and other services, rose by KD 223 million or 21.5% to KD 1258 million during 2004, compared with a deficit of KD 1035 million in the previous year. This rise essentially reflects the collective rise in the total value of payments from residents in the domestic economy, recorded on the debit side of the Services Account, under the 'Travel', 'Transportation' and 'Government

Services' items by KD 263 million (13.5%) from KD 1946 million during 2003 to KD 2209 million during 2004.

- 3- The resumption of growth at rapid rates in the surplus realized in the 'Investment Income' item to KD 1886 million during 2004, compared to a surplus of KD 1000 million during the previous year, i.e. an increase of KD 886 million or 88.6%. This rise reflects the favorable developments in the rates of return on financial instruments and investment assets in the major financial markets, along with the increase in the balances of Kuwait's external investments abroad during 2004.
- 4- The deficit recorded in the Current Transfers (Net) item, rose by KD 42 million (5.9%) to KD 751 million during 2004, from KD 709 million during the previous year. This rise is essentially attributable to the growth in the net value of the outbound unrequited current transfers by the 'Other Sectors', including the transfers of expatriate workers which recorded an increase of KD 69 million or 10.8% to KD 751 million during 2004, compared to their previous year level of KD 709 million.
- 5- The Current Account in the BOP statistics of the State of Kuwait (which reflects the outcome of the above mentioned developments regarding the balance on goods, Services Account (Net), Investment Income (Net) and current transfers) realized a surplus of KD 5565 million during 2004, compared with a surplus of KD 2806 million during the previous year, i.e. a rise of KD 2759 million or 98.3%. As a result of the rise in the Current Account surplus, its ratio to the GDP at current prices rose to 33.9% during 2004, from 20.4% during the previous year.
- 6- The net financial inflows recorded on the credit side under the Capital Account of the BOP statistics of the State of Kuwait declined from KD 426 million during 2003 to KD 128 million during 2004. This development essentially reflects the total value of compensations received by residents in the domestic economy from the United Nations

Compensation Committee against damages sustained as a result of the brutal Iraqi invasion and occupation of the State of Kuwait.

- 7- The growth in net value of Kuwait's external investments recorded on the debit side under the financial account of the BOP statistics of the State of Kuwait, accelerated by KD 2282 million (64.1%) to KD 5841 million during 2004, compared with a growth of KD 3559 million in the net value of these assets during 2003. This rise occurred during 2004 as the outcome of the growth in the net value of assets invested abroad by the institutions and bodies recorded under the General Government (by KD 4795 million), local banks (by KD 862 million), and the 'Other Sectors' (by KD 193 million). From the perspective of the composition of investments abroad within the 'Financial Account', the report indicated that the above mentioned growth in net value of Kuwait's investments abroad during 2004, reflects the outcome of the growth of Kuwaiti investments recorded under the 'Portfolio Investments (Net)' item by KD 4041 million, the 'Other Investments (Net)' item by KD 1242 million, and the 'Direct Investment (Net)' item by KD 558 million.
  
- 8- As an outcome of the mentioned developments in the current account, the capital and financial account, along with the developments concerning error or omission in all items of the BOP statistics, the overall balance in these statistics realized a surplus of KD 197 million during 2004, after realizing a deficit of KD 291 million during 2002, and KD 524 million during 2003. This surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait (CBK) which rose by the same amount (KD 197 million) at end of 2004, compared to end of the previous year. If the overall position of the State of Kuwait Balance of Payments is considered from a broader perspective to reflect the changes in reserve assets available to the domestic economy which could be used for the Balance of Payments purposes, essentially represented in the change in net value of external investments of some governmental institutions and authorities under the 'General Government' item, in addition to the change in total reserve assets of CBK, the overall position of the Balance of Payments shows a

surplus of KD 5944.3 million during 2004, compared with a surplus of KD 1981.7 million during 2003, i.e. an increase of KD 3962.6 million or 200%.

#### **Sixth- Developments in the Kuwait Stock Exchange Activity:**

The report addressed, in its sixth and last part, the developments in the Kuwait Stock Exchange (KSE) activity during 2004, as reflected by data on the main indices of trading activity and prices, along with analyzing the most significant factors influencing these indices, the performance of listed companies, the developments in the share issue base and the new companies listed on the market during year 2004. With regard to the developments in the main indices of the Kuwait Stock Exchange (KSE), the report indicated that though the price indices realized record levels during year 2004, their growth rates during that year were below those recorded in the previous year. The KSE General Price Index rose from 4790.2 points at end of 2003 to 6409.5 points at end of 2004, i.e. an increase of 33.8%, following its recorded rate of increase of 101.7% during the previous year. Conversely, a decline was recorded in the total value of traded shares (by 6%), the total quantity of traded shares (32.3%), and number of transactions (2.3%). Also, the daily averages of the value and quantity of traded shares declined by 7.9% and 33.7% respectively in 2004, compared to the previous year.

Regarding the factors affecting the developments in KSE's activity during 2004, the report indicated that several factors jointly influenced KSE's activity positively during 2004. These factors contributed to enhancing the listed-companies' performance, along with firmly establishing the atmosphere of optimism and confidence in the market; thus attracting more liquidity to the market. Among the most notable of these developments were the continued growth in the net profits realized by listed companies, the increase in the number of companies listed on the market, the atmosphere of confidence and optimism regarding the domestic economy's performance and the growing rates of government expenditures, and the increase in corporate trading. The report also addressed the performance of KSE-listed companies during 2004, indicating that these



companies realized a rise of 20% in their profits compared to the previous year, whereby the net profits of 107 companies for which data were available reached KD 1619.9 million, against KD 1349.6 million during 2003.

In regard to the developments in the share issue base and market capitalization, the report indicated that the number of listed companies reached 125 companies at end of 2004, from 108 companies at end of the previous year. This increase resulted from the listing of 18 new companies on the one hand, and the withdrawal of one (Non-Kuwaiti) company from the market on the other. Among the new companies, 2 companies were listed under the Investment sector, 3 companies under the Insurance, 3 companies under the Real-estate sector, 5 companies under the Services sector, 2 new companies under the Industry sector, 1 new company under the Food sector, and 2 new companies under the Non-Kuwaiti Companies sector.

The market capitalization of listed companies rose by KD 4 billion or 22% during 2004 to KD 22.1 billion at end of that year, against KD 18.1 billion at end of 2003. The price movements contributed 57.2% of the rise in market capitalization of listed companies during 2004. In this regard, the report indicated that the listed Non-Kuwaiti companies realized the highest growth rates in market capitalization during 2004, as the market capitalization of their shares rose by 115% compared to the previous year. A significant portion (36%) of that rise resulted from the rise in the share prices of companies' listed under that sector, following the rise of these prices by 70.4% on average at end of 2004 compared to end of the previous year. Next in rank with regard to the growth rate in market capitalization was the Real-Estate companies sector (52%), followed by the Investment companies sector (29%), and the Insurance companies sector (28%).

**Table (82)**  
**Development of Main Economic, Financial**  
**and Monetary Indicators and Variables**  
(KD Million)

<b>Item</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>National Accounts:</b>					
<b>GDP at Current Prices:</b>	<b>11312.3</b>	<b>10445.7</b>	<b>11584.5</b>	<b>13768.1</b>	<b>16420.3</b>
Crude Oil & Natural Gas Sector	5543.9	4586.5	4409.2	5794.0	7817.8
Non-oil Sectors	5691.4	5775.3	7078.4	7839.0	8481.7
Of which: Petroleum Products	501.6	374.4	430.6	573.4	795.5
<b>Import Duties</b>	77.0	83.9	96.9	135.1	120.8
<b>GDP at Fixed (Prices of 1995:</b>	<b>8680.2</b>	<b>8741.7</b>	<b>8696.6</b>	<b>9541.4</b>	<b>...</b>
Crude Oil & Natural Gas Sector	3111.7	3042.7	2729.0	3290.5	...
Non-oil Sectors	5676.9	5807.6	6066.2	6427.5	...
Of which: Petroleum Products	539.4	487.7	520.8	602.1	...
Import Duties	76.2	81.5	90.1	80.1	...
<b>Domestic Prices:</b>					
CPI (2000=100)	100.0	101.3	102.2	103.2	104.5
WPI (1980=100)	163.1	166.3	171.8	175.1	175.8
<b>Monetary and Banking</b>					
<b>Aggregates and Indicators:</b>					
Money Supply (M2)	8163.2	9208.5	9646.3	10401.2	11655.2
Money (M1)	1467.7	1641.4	2066.7	2611.5	3174.2
Quasi-money	6695.6	7567.1	7579.6	7789.7	8481.0
Private Sector Deposits with Local Banks	7746.6	8807.3	9204.1	9907.1	11124.2
Of which: KD Deposits	6852.0	7915.3	8300.5	8916.6	9955.3
Credit Facilities Extended by Local Banks to Residents	5222.8	6027.0	6853.5	8419.4	9867.0
Of which: Consumer Loans	567.7	633.5	698.0	748.8	736.4
Net Foreign Assets of Local Banks	773.3	456.1	409.3	500.5	1369.8
Aggregate Balance Sheet of Local Banks	13806.2	15064.2	17063.7	18813.9	19144.2
US dollar Exchange Rate against the KD at Year End (fils)	305.68	307.36	299.70	294.70	294.70
<b>Public Debt Instruments:</b>					
<b>Value of Issues:</b>	<b>3150.0</b>	<b>3435.0</b>	<b>4370.0</b>	<b>4400.5</b>	<b>3854.2</b>
Treasury Bills	1707.0	2150.0	3460.0	3030.5	2515.2
Treasury Bonds	1443.0	1285.0	910.0	1370.0	1339.0
<b>Balances at Year End:</b>	<b>2473.0</b>	<b>2463.0</b>	<b>2465.0</b>	<b>2460.5</b>	<b>2427.0</b>
Treasury Bills	490.0	860.0	1555.0	1190.5	1088.0
Treasury Bonds	1983.0	1603.0	910.0	1270.0	1339.0

.....Cont'd.

**Table (82) Cont'd.**  
**Development of Main Economic, Financial**  
**and Monetary Indicators and Variables**  
(KD Million)

<b>Item</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2004</b>
<b>Public Finance (Fiscal Years):</b> <sup>(1)</sup>	<b>(2000/01)</b>	<b>(2001/02)</b>	<b>(2002/03)</b>	<b>(2003/04)</b>	<b>(2004/05)</b> <sup>(2)</sup>
Revenues	9465.4	5336.6	6219.0	6937.3	6595.2
Expenditures	3188.1	4746.4	4927.4	5522.8	3268.7
Surplus or Deficit <sup>(3)</sup>	1777.3	590.2	1291.6	1414.4	3326.5
<b>Foreign Trade:</b>					
Total Value of Exports, of which:	5962.7	4969.7	4666.2	6162.1	8466.5
Value of Oil Exports <sup>(4)</sup>	5578.3	4590.8	4272.8	5663.5	7861.1
Total Value of Imports (cif)	2195.4	2413.3	2735.8	3274.1	3538.0
<b>Balance of Payments:</b>					
Current Account	4501	2553	1282	2806	5565
Balance on Goods	3996	2819	2201	3550	5688
Services Account (Net)	-950	-1132	-1273	-1035	-1258
Income Account (Net)	2055	1503	1016	1000	1886
Current Transfers (Net)	-600	-637	-652	-709	-751
<b>Kuwait Stock Exchange:</b>					
<b>(Excluding Investment Funds Transactions)</b>					
Value of Traded Shares (KD Million)	1290.4	3581.1	6680.0	16250.3	15274.2
Quantity of Traded Shares (Million Shares)	6758.0	16299.7	27837.0	49562.6	33535.7
Number of Transactions (Thousand Transactions)	156.5	354.3	520.9	081.7	1056.9
<b>(Including Investment Funds Transactions)</b>					
Price Index (29/12/1993 =1000)	1348.1	1709.4	2375.3	4790.2	6409.5
Weighed Index (26/12/2000=100)	100.0	131.6	172.1	291.1	335.9

(1) Data are taken from the closing accounts, (fiscal years end up in March, noting that the fiscal year 2000/01 covers nine months from 1/7/2000 to 31/3/2001).

(2) Follow-up statements for the period (April-December 2004).

(3) Before deducting the allocations for the Reserve Fund for Future Generations.

(4) CBK estimates for oil exports and foreign trade, for year 2004.

(...) Unavailable Data.